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The Senate's Tax Reform Poison Pill

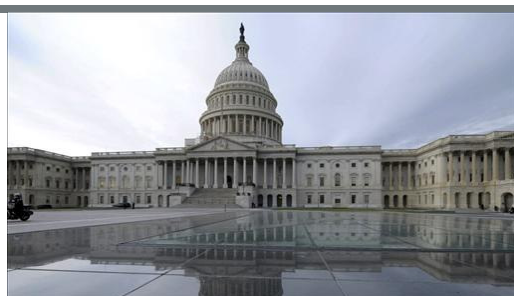
As the president mounts a charm offensive, his Senate allies ask for \$1 trillion in new revenue.



By KIMBERLEY A. STRASSEL

President Obama went to Capitol Hill on Wednesday to assure House Republicans that he honestly and truly wants to work with them. A few hours later, the Democratic Senate released a budget that took a meat cleaver to one of the better prospects for bipartisan cooperation. So it goes with the Obama charm offensive.

The issue is (of course) taxes. Budget Chairman Patty Murray chose to craft the Senate's first budget in four years entirely around her party's political priority of grabbing another \$1 trillion in revenue. By hiding this tax hike under the guise of tax reform, and dictating what that "reform" must look like, Mrs. Murray and the White House made it that much harder to ever get a real rewrite of the code.



Editorial board member Steve Moore on the Senate budget blueprint. Photo: Associated Press

Why is this notable? While the media swoon over an amorphous grand bargain over the deficit, wiser Washington heads have understood that the best chance for cooperation on the economic and budget front rests in tackling the tax beast. Throughout all the election and tax-cliff and sequester drama, both the Senate and the House have been slowly laying the groundwork for tax reform.

House Ways and Means Chairman Dave Camp has already released draft rewrites of the code, and Speaker

[John Boehner](#) has said that reform will get top legislative priority. Senate Finance Chairman Max Baucus has called this a "once-in-a-generation opportunity," has held dozens of hearings, and is moving toward producing his own product. The White House has been promising (at least corporate) tax reform for years.

Then there is the political impetus. Republicans see reform as a way to re-energize their tax debate and reconnect with voters. The White House knows that tax reform is politically its only conceivable vehicle for more revenue—maybe, if done right. The House GOP is adamant that its own tax product will be "revenue neutral," but some Democrats have held out hope that—were Mr. Baucus to produce a reform Republicans liked—the GOP might be talked into swallowing some modest additional revenue.

Left to his own devices, that is the route Mr. Baucus would likely travel. The Montana Democrat isn't exactly known for bravery, and he would probably buckle under party demands to use his bill to produce some revenue. At the same time, he seems to understand the economic merit of a simpler code with lower rates. He is also aware that the technical realities of tax reform, and a Senate filibuster, would likely limit any new revenue to, at most, a few hundred billion dollars.

Enter Mrs. Murray, whose budget—with assists from Senate Majority Leader Harry Reid, New York's [Chuck Schumer](#) and the White House—knocked this process sideways. In thrall to the president's call for higher taxes, Mrs. Murray has used her budget to dictate that Mr. Baucus's committee must produce a tax "reform" by October that raises \$1 trillion in revenue. The Montanan fought the move, warning that such a stunt would stalemate the process—only to be

disseed by his own leadership. Asked why he was tying Mr. Baucus's hands, Mr. Reid bluntly replied that "Baucus isn't chair of the Budget Committee."



Associated Press

Patty Murray, (D., Wash.), chairman of the Senate Budget Committee.

The Murray diktat blows up bipartisanship. In hijacking the Finance Committee's work, she has decreed that the push for a streamlined code with lower rates be turned into a partisan tax-hiking adventure. The only way Mr. Baucus can gin up \$1 trillion is by raising rates—on corporations, small businesses and higher-income Americans—and by adding more tax complexity than he eliminates.

While Mrs. Murray's budget didn't specify how Mr. Baucus has to drum up the dough, its few suggestions left no doubt about whom liberal Dems expect him to target. "One potential approach," wrote Mrs. Murray in

her budget, "is an across-the-board limit on [deductions] claimed by high-income taxpayers (specifically, the top 2 percent of income earners)." All of this—tax hikes, complexity, class warfare, the revenue figure—is the opposite of tax reform and a non-starter with the GOP.

So too is the piecemeal approach the Murray budget requires. Putting tax reform through budget "reconciliation" subjects it to arcane budget rules. Critical parts of tax reform—compliance, the issue of territorial taxation, even tax-filing dates—couldn't be considered. This too is a non-starter for the GOP, which is intent on comprehensive reform.

Tax-reform optimists note that the budget is nonbinding—Mr. Baucus can buck his party and go his own way. But that's putting a lot of faith in the mettle of a man who has proved one of the more reliable Obama votes these past years. And no matter how Mr. Baucus proceeds, Mrs. Murray has dramatically upped the ante for what the liberal Democratic caucus will accept.

Republicans might ask themselves why. Perhaps this was a White House negotiating ploy, a high opening bid designed to wangle big revenue out of a compromise. President Obama may be betting that Republicans are so eager to take credit for passing tax reform that they're willing to barter away their principles in the process.

Then again, maybe the White House has decided that any revenue it might get in a real compromise won't come close to sating its spending desires. Maybe it figures it would get a lot more if it took back the House in 2014 and again ran Washington. Maybe it is therefore teeing up the impossible—as it has with guns and other issues—solely to make Republicans look obstructionist. Maybe.

These are, after all, the days of the charm offensive.

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